GRAFTON-FRASER LIMITED / ANNUAL REPORT FOR ELEVEN MONTHS ENDED JANUARY 1, 1969

Corp. Report

Board of Directors

G. RICHARD CHATER, *President*	Campbellville
BRIG. W. PRESTON GILBRIDE, C.B.E., D.S.O., E.D., LL.D. *Chairman; Director, Gerling Global Insurance Group*	Toronto
WILLIAM A. HEASLIP, *Vice President*	Milton
JAMES W. McCUTCHEON, *Partner, Shibley, Righton & McCutcheon*	Toronto
STEWART PHILP, *Vice Chairman*	Dundas
JOHN B. RIDLEY, *Executive*	Toronto
SAM FOSTER ROSS, Q.C., *Partner, Ross & Robinson*	Dundas
T. EDWARD TOPPING, *Vice President*	Stouffville
DOUGLAS C. WOOLLEY, Q.C., *Partner, Cobban, Woolley & Dale*	Toronto
*Hon. M. WALLACE McCUTCHEON, P.C., C.B.E., Q.C., LL.D.	Toronto

Officers

W. P. GILBRIDE, *Chairman*

S. PHILP, *Vice Chairman*

G. R. CHATER, *President*

W. A. HEASLIP, *Vice President*

T. E. TOPPING, *Vice President*

G. A. REYNOLDS, C.A., *Secretary-Treasurer*

D. W. WYCKOFF, R.I.A., *Assistant Treasurer*

Transfer Agents and Registrar

CANADA PERMANENT TRUST COMPANY, TORONTO

Auditors

THORNE, GUNN, HELLIWELL & CHRISTENSON, TORONTO

*Deceased January 23, 1969

Directors' Report to the Shareholders

We are pleased to report on a successful year, both in terms of the financial results and in the development of our human resources and their skills. The improving performance reflects the combined strengths of the two retail groups which joined together less than two years ago.

FINANCIAL

The increase of 165% in profits exhibits an acceleration of the trend over the last 18 months and our balance sheet position and liquidity has improved. Certain key Head Office management and supervisors were invited to more fully participate in earnings through the purchase of common shares of the Company. We are looking forward to continued satisfactory growth over the next few years.

In changing the Company's year end, some of the figures on the balance sheet have become slightly distorted, on a comparative basis, due to the merchandising time cycle. The inventory level, in ratio to eleven months' sales, is satisfactory. The increased accounts receivable include an amount of $614,000 due from the Christmas period under our license agreement. The increase in accounts payable includes substantial accrued expenses.

In events subsequent to the year end, the contingent liability in respect to loans of associated companies has been removed by agreement with the Company's bankers.

Mr. G. A. Reynolds was elected to the Board of Directors to fill the vacancy arising from the death of the Late Honourable M. W. McCutcheon, who had served the Company as a Director and adviser and whose passing we deeply regret.

The Company is holding conversations with its Fiscal Agents, and we are considering the appropriateness of arranging a Public issue of securities to further improve the working capital position and provide for future expansion.

RETAIL DIVISIONS

Licensed Departments—Men's & Boys' Apparel

We opened five new licensed departments last year and continued to enjoy a significant rate of increased sales in the previously existing units. Through regional supervision and its liaison with management, our relative costs of operation improved substantially, as did our ability to satisfy the diverse needs and tastes of the geographic regions of our business right across the country.

We have opened two new units in early 1969 and we anticipate two more units during the late Summer, with eight planned for the balance of the year. If most of the eight open in the late Fall, it can be expected that they will not show profits in 1969 due to pre-opening and opening expenses, however, increasing sales and efficiency of existing units will improve the gratifying performance of this division.

Jack Fraser Stores—Men's & Boys' Apparel

Two new stores were opened last year and the sales trend performed favourably overall. Their profit contribution did not increase proportionately to their sales, but changes have been made that should ensure an increase in profit of this group. We expect to open a minimum of two new stores in 1969.

Grafton Stores—Men's & Boys' Apparel and Ladies Sportswear

During 1968, one unprofitable store was closed, one store was remodelled with a Ladies Sportswear Boutique added and one major new store was opened in the Burlington Mall. All stores are now entirely new or remodelled, with the same merchandise mix. The results of this division are continuing to improve.

Ross Stores—Junior Department Stores

This division has increased its profit contribution through more centralization of merchandising, credit and accounting, and we anticipate increased efficiency during the coming year.

General

We are satisfied that the year on which we are reporting was one of great achievement in operations and financial results, and we are confident that next year will be a year of further progress.

Appreciation

These results are only due to the dedicated effort of our management and staff and the support of our co-operating suppliers in building a mutually rewarding future.

On behalf of the Board

G. R. CHATER

President

Dundas, Ontario, March 3, 1969

Consolidated Balance Sheet

GRAFTON-FRASER LIMITED
(Incorporated under the laws of Ontario)
and its subsidiary, Grafton's Limited

		January 1, 1969	January 31, 1968
ASSETS			
CURRENT ASSETS			
Cash		$ 69,487	$ 17,425
Accounts receivable (including in 1969 amounts due under licence agreement, since paid)		1,348,959	750,950
Inventory, at lower of cost and net realizable value less normal profit margin		4,132,858	3,648,653
Prepaid expenses		11,985	31,978
		5,563,289	4,449,006
INVESTMENTS, at cost			
Marketable securities			22,905
Other securities			40,000
			62,905
DUE FROM DIRECTOR re purchase of shares (note 4)		50,000	
FIXED ASSETS, at cost			
Fixtures and equipment		1,531,911	1,478,917
Leasehold improvements		964,668	864,104
		2,496,579	2,343,021
Less accumulated depreciation		1,599,805	1,499,668
		896,774	843,353
		$ 6,510,063	$ 5,355,264

Approved by the Board

G. RICHARD CHATER, *Director*

W. P. GILBRIDE, *Director*

	January 1, 1969	January 31, 1968
LIABILITIES		
CURRENT LIABILITIES		
Bank advances (note 1)	$ 800,000	$ 1,212,293
Accounts payable and accrued liabilities	1,582,595	914,277
Income and other taxes payable	650,978	260,003
7% Notes due February 1	125,000	125,000
	3,158,573	2,511,573
NOTES PAYABLE, non-current portion (note 2)	721,700	846,700
DEFERRED INCOME TAXES	20,000	12,500
DEFERRED CREDIT being excess of book value of shares acquired of subsidiary company over cost less amortization (note 3)	139,034	156,413
INTEREST OF MINORITY SHAREHOLDERS in Grafton's Limited	31,760	31,699
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)		
Authorized		
50,000 6% Cumulative preference shares par value $20, redeemable at $21 each		
100,000 Common shares, par value $10 each		
Issued		
46,896 Preference shares	937,920	937,920
74,496 Common shares (1968—69,496)	744,960	694,960
	1,682,880	1,632,880
CONTRIBUTED SURPLUS (note 5)	153,534	78,534
RETAINED EARNINGS	602,582	84,965
	2,438,996	1,796,379
	$ 6,510,063	$ 5,355,264

Demand debenture (note 1)
Contingent liabilities (note 6)
Long term leases (note 7)

Consolidated Statement of Income and Retained Earnings

GRAFTON-FRASER LIMITED
and its subsidiary, Grafton's Limited

	Eleven months ended January 1, 1969	Year ended January 31, 1968
Sales	$25,219,174	$21,461,478
Cost of sales and expenses other than undernoted	23,398,211	20,611,494
Income from operations before the undernoted items	1,820,963	849,984
Amortization of excess of book value of shares acquired of subsidiary company over cost (note 3)	17,379	17,379
	1,838,342	867,363
Interest on long term notes	54,330	33,845
Other interest and bank charges	180,504	201,583
Depreciation	100,137	108,611
	334,971	344,039
Income before income taxes	1,503,371	523,324
Income taxes		
Current	781,500	243,500
Deferred	7,500	9,500
	789,000	253,000
Net income before interest of minority shareholders	714,371	270,324
Interest of minority shareholders in income	1,487	1,585
Net income for the period	712,884	268,739
Retained earnings at beginning of period (1968 as previously restated)	84,965	2,039
	797,849	270,778
Deduct		
Dividends		
Preference shares	56,275	46,821
Common shares	138,992	138,992
	195,267	185,813
Retained earnings at end of period	$ 602,582	$ 84,965

Consolidated Statement of Source and Application of Funds

GRAFTON-FRASER LIMITED
and its subsidiary, Grafton's Limited

	Eleven months ended January 1, 1969	Year ended January 31, 1968
Source of funds		
Operations		
Net income for the period	$ 712,884	$ 268,739
Add items not involving current funds		
Depreciation	100,137	108,611
Deferred income taxes	7,500	9,500
Amortization of excess of book value of shares acquired of subsidiary company over cost	(17,379)	(17,379)
	803,142	369,471
Issue of 7% notes		846,700
Sale of investments	62,905	
Issue of shares		
Preference shares		207,000
Common shares	125,000	141,343
	991,047	1,564,514
Application of funds		
Fixed assets acquired on purchase of net assets of Jack Fraser Stores		328,150
Other additions to fixed assets	153,497	70,674
Notes payable reclassified as current liabilities	125,000	
Dividends		
Preference shares	56,275	46,821
Common shares	138,992	138,992
Due from director re purchase of shares	50,000	
	523,764	584,637
Increase in working capital	467,283	979,877
Working capital at beginning of period	1,937,433	957,556
Working capital at end of period	$ 2,404,716	$ 1,937,433

Notes to Consolidated Financial Statements

GRAFTON-FRASER LIMITED
and its subsidiary, Grafton's Limited

1. BANK ADVANCES

The bank advances of $800,000 are secured, by the pledge of a demand debenture of $5,000,000 containing a floating charge on the assets of the company, by a general assignment of the accounts receivable of the company and its subsidiary and by the guarantee of the subsidiary containing a floating charge on its assets (note 6).

The demand debenture, as well as being collateral security of bank advances, is collateral security in connection with guarantees of an affiliated company's bank loan (note 6).

2. NOTES PAYABLE, NON-CURRENT PORTION

	January 1, 1969*	January 31, 1968*
7% notes		
Due February 1, 1969		$125,000
Due December 31, 1968 or December 31, 1969 at the company's option		400,000
Due February 1, 1970 (1968—due December 31, 1969), payable at the company's option by delivery of 9,085 preference shares (note 4)	$181,700	181,700
Due February 15, 1970	100,000	
Due February 15, 1971	100,000	
Due December 31, 1972 convertible at the holder's option into 8,000 common shares (note 4)	200,000	
Due December 31, 1972 convertible at the holder's option into 8,512 common shares (note 4)	140,000	140,000
	$721,700	$846,700

**Included in the above are notes payable to directors of $596,700.*

3. DEFERRED CREDIT

In the year ended January 31, 1968 the company adopted the policy of amortizing to income over ten years the excess of book value of shares acquired of subsidiary company over cost.

4. CAPITAL STOCK

Common shares

Issued during the period		
For cash	3,000 shares	$ 75,000
Due from director	2,000 shares	50,000
	5,000 shares	$125,000

The amount due from director is secured by the shares under a trust agreement.

During the year ended January 31, 1968 10,510 preference shares were issued of which 160 were issued in exchange for 160 Class A shares of Grafton's Limited. 10,350 preference shares and 8,608 common shares were issued as part payment for purchase of certain assets of the Jack Fraser Stores.

The company will have to obtain supplementary letters patent increasing its authorized preference shares should it decide to issue 9,085 preference shares in payment of a certain 7% note (see note 2).

The company has reserved 16,512 common shares should certain 7% noteholders wish to exercise their option (see note 2).

Commencing in the year ended January 6, 1971 the company must acquire for redemption preference shares in an amount equal to 5% of the consolidated net income for the immediately preceding fiscal year.

5. CONTRIBUTED SURPLUS

	Eleven months ended January 1, 1969	Year ended January 31, 1968
Balance at beginning of period	$ 78,534	$ 23,271
Contributed surplus arising on issue of 5,000 (1968—8,608) common shares	75,000	55,263
Balance at end of period	$153,534	$ 78,534

6. CONTINGENT LIABILITIES

The company has guaranteed the bank indebtedness of an affiliated company and the company's demand debenture is also held by the bank as collateral security as set out in note 1. At January 1, 1969 the bank indebtedness outstanding against this guarantee amounted to $1,210,000 (January 31, 1968, $1,660,000).

7. LONG TERM LEASES

Leases including renewal options, extend into the year 1988 at a minimum annual rental exclusive of taxes, insurance and percentage-of-sales charges of approximately $1,585,000. Rent for the period ended January 1, 1969 is $1,769,000.

8. CHANGE IN FISCAL YEAR

The company changed its fiscal year end from January 31 to the first Wednesday in January.

9. OTHER STATUTORY INFORMATION

	Eleven months ended January 1, 1969	Year ended January 31, 1968
Remuneration of directors and senior officers (as defined by The Corporations Act)	$185,191	$221,021

Auditors' Report

To the Shareholders of
Grafton-Fraser Limited

We have examined the consolidated balance sheet of Grafton-Fraser Limited and its subsidiary, Grafton's Limited as at January 1, 1969 and the consolidated statements of income and retained earnings, and source and application of funds for the eleven months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 1, 1969 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne, Gunn, Helliwell & Christenson

Chartered Accountants

Toronto, Canada
March 3, 1969

Five Year Summary

	Eleven Months Ended January 1, 1969	Years Ended January 31			
		1968	1967	1966	1965
Sales	$25,219,174	$21,461,478	$3,312,558	$3,394,285	$3,465,271
Costs of sales and expenses other than undernoted	23,398,211	20,611,494	3,193,122	3,209,503	3,313,654
Income from operations before the undernoted items	1,820,963	849,984	119,436	184,782	151,617
Amortization of excess of book value of shares acquired of subsidiary over cost (note 5)	17,379	17,379	—	—	—
	1,838,342	867,363	119,436	184,782	151,617
Interest	234,834	235,428	12,349	24,565	24,481
Depreciation	100,137	108,611	47,248	60,052	54,447
	334,971	344,039	59,597	84,617	78,928
Income before income taxes and minority interest	1,503,371	523,324	59,839	100,165	72,689
Income taxes	789,000	253,000	11,000	50,010	39,500
Income before minority interest	714,371	270,324	48,839	50,155	33,189
Minority interest	1,487	1,585	19,099	43,728	45,496
Net income (loss)	712,884	268,739	29,740	6,427	(12,307)

Branches

Retail Stores

Jack Fraser Stores—Metropolitan Toronto

Agincourt Shopping Mall
Cedar Heights Shopping Centre
Eglinton—West Side Mall
Eglinton Square
Kipling Heights Shopping Centre
Northtown Shopping Centre
Pape and Danforth
Weston Road
Yorkdale Shopping Centre

Outside Metropolitan Toronto

Applewood Village
Belleville
Dundas, University Plaza
Hamilton, Greater Hamilton Shopping Centre
Kitchener
Kitchener, Fairview Park Shopping Centre
London, Argyle Mall
Newmarket, Newmarket Plaza
Oakville
Oakville, Hopedale Shopping Centre
Oshawa, Oshawa Shopping Centre
Richmond Hill, Richmond Hill Shopping Centre
Sault Ste. Marie, Market Mall
St. Catharines, Niagara Peninsula Shopping Centre
Timmins
Windsor, Dorwin Shopping Centre

Grafton Stores

Brantford
Burlington, Burlington Mall
Dundas
Hamilton
London
Owen Sound
Peterborough
St. Catharines, Niagara Peninsula Shopping Centre
Woodstock

Ross Stores

Guelph, G. B. Ryan
Lindsay
Oakville, Hopedale Shopping Centre
Trenton
Welland

Other

Galt
London

Leased Departments

Eastern Region

St. John's, Newfoundland
Sydney, Nova Scotia
Saint John, New Brunswick
Granby, Quebec
Montreal, Brossard, Quebec
Montreal, Laval, Quebec
Sherbrooke, Quebec

Ontario Region

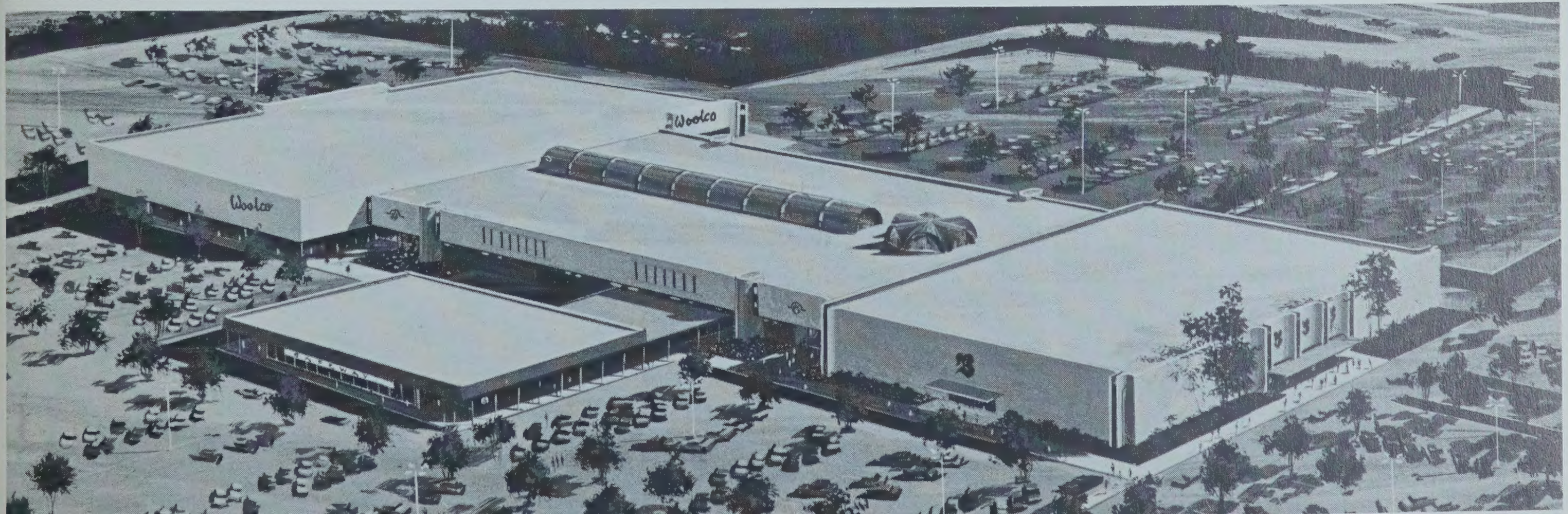
Toronto, Agincourt Mall
Brantford
Cornwall
Hamilton
Kingston
Kitchener
London
St. Catharines
Sault Ste. Marie
Sudbury
Windsor (2)
Whitby

Western Region

Winnipeg, Manitoba
Regina, Saskatchewan
Calgary, Alberta (2)
Edmonton, Alberta (2)
Lethbridge, Alberta
Vancouver, British Columbia
Victoria, British Columbia


MAHER
JEWELLERS
GRAFTON'S


JACK FRASER
JACK FRASER



To Our Shareholders:

Unaudited financial statements for the 26 weeks ended July 8th show sales of $15,566,000, a 26.3% increase over the 26 weeks ended July, one year ago. After tax earnings increased to $465,000.

Licensed Woolco departments in ~~Quebec City~~, ~~Levis, Montreal (St Leonard)~~, Sarnia ~~and Toronto (Weston)~~ were opened during the period. Jack Fraser stores in Sarnia and Vancouver (Burnaby) were also successfully opened.

1st Q (reported previously)

Additional licensed Woolco departments will be opened in Toronto (North Park), Red Deer and Montreal (Longueuil). Jack Fraser stores will be opened this Fall in Vancouver (Park Royal Shopping Centre), Winnipeg (Garden City Shopping Centre) and possibly one additional store in British Columbia. This is in accordance with our new policy of expanding westward out of Ontario. Ontario stores will be opened in Windsor (Devonshire Shopping Centre) and Toronto (Etobicoke — Albion Mall). Fourteen new stores in one year will be a record for the company.

During the period, 3,330 first preference shares were purchased by private contract for $49,990 in accordance with the provisions of the company's preference share purchase fund requirements.

The public issue of common shares by Grafton Group Limited, the owner of all common shares of the company, mentioned in the director's year end report to the shareholders, has been postponed due to market conditions.

We are optimistic that our year end results in terms of earnings and working capital improvement will be satisfactory, notwithstanding the high initial costs of store openings, but many uncertainties regarding the degree of improvement exist due to the discouraging economic climate. However, the company is continuing to build a broad platform for the time when consumer spending once again starts to rise significantly.

Respectfully,

G R Chater

G. R. Chater, President

Dundas, Ontario, August 7, 1970.

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GRAFTON-FRASER

LIMITED

Established 1853

INTERIM REPORT

FOR THE

26 WEEKS ENDED JULY 8, 1970

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GRAFTON-FRASER LIMITED

and its subsidiary, Grafton's Limited

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26 Weeks ended July 8, 1970

(With comparative figures for 1969)

CONSOLIDATED STATEMENT OF INCOME

	26 Weeks Ended July 8, 1970	July 2, 1969
Sales	$ 15,566,868	$ 12,328,205
Income from operations before the undernoted items	1,177,866	742,601
Interest	105,260	101,662
Depreciation	73,996	58,872
	179,256	160,534
Income before income taxes	998,610	582,067
Income taxes	533,000	303,000
Net income for the period	$ 465,610	$ 279,067

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	26 Weeks Ended July 8, 1970	July 2, 1969
Application of Funds		
Additions to fixed assets	$ 246,442	$ 108,470
Redemption of preference shares	49,990	
Dividends		
Preference shares	28,974	28,905
Common shares	500,000	148,992
	825,406	286,367
Source of Funds		
Operations		
Net income for period	465,610	279,067
Add depreciation	73,996	58,872
	539,606	337,939
Decrease in working capital	285,800	149,036
Working capital at beginning of period	2,896,038	2,404,716
Working capital at end of period	$ 2,610,238	$ 2,255,680